

**PUBLIC ACCOUNTS
OF THE
GOVERNMENT OF NUNAVUT
FOR THE YEAR ENDED MARCH 31, 2003**

HONOURABLE LEONA AGLUKKAQ

Minister of Finance

**THE HONOURABLE PETER IRNIQ
COMMISSIONER OF NUNAVUT**

I have the honour to present the Public Accounts of Nunavut for the fiscal year ended March 31, 2003. I would ask that these accounts be laid before the Legislative Assembly in accordance with the *Financial Administration Act*, R.S.N.W.T. 1988, c.F-4, S. 74 as amended, and duplicated for Nunavut, and the *Nunavut Act*, S.C. 1993, C.28, s.44.

Honourable Leona Aglukkaq
Minister of Finance

Government of Nunavut
Iqaluit, Nunavut
March 26, 2004

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING	5
---	----------

AUDITOR'S REPORT	6
-------------------------	----------

Consolidated Statement of Financial Position	7
--	---

Consolidated Statement of Operations	8
--------------------------------------	---

Consolidated Statement of Change in Net Debt	9
--	---

Consolidated Statement of Cash Flows	10
--------------------------------------	----

Notes to Consolidated Financial Statements	11
--	----

Schedule A - Consolidated Schedule of Revenues by Source	27
--	----

Schedule B - Consolidated Schedule of Tangible Capital Assets	28
---	----

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these consolidated financial statements for the Government of Nunavut, and related information contained in the Public Accounts, is the responsibility of management of the Department of Finance.

The consolidated financial statements have been prepared in accordance with the accounting policies set out in Note 2 to the consolidated financial statements and comply with the recommendations of the Public Sector Accounting Board wherever applicable. When alternative accounting methods exist, management has chosen those it believes are most appropriate. Where required, management's best estimates and judgments have been applied in the preparation of these statements.

The Government fulfills its accounting and reporting responsibilities, through the Department of Finance, by maintaining systems of financial management and control. These systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure that all transactions are in accordance with the *Financial Administration Act*.

The Public Accounts are referred to the Standing Committee on Government Operations and Services after they have been tabled in the Legislative Assembly. The recommendations of this committee will be reviewed and acted on, where appropriate, to improve financial management and control as well as reporting practices, and the systems of internal controls.

The Auditor General of Canada conducts an annual audit of the consolidated financial statements in order to express an opinion as to whether the statements present fairly the financial position, results of operations, change in net debt and cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure that they are, in all significant respects, within the statutory powers of the Government and those organizations included in the consolidation. The Auditor General's opinion is included with the consolidated financial statements.

After completion of the audit, the Auditor General provides additional information, comments, and recommendations in her annual report to the Legislative Assembly of Nunavut.

The fundamental purpose of the financial statements is to provide information to the Legislative Assembly and the public as to the full nature and extent of the Government's financial affairs. The Government is complex, and no one measure can capture all aspects of its finances. Together the four main financial statements provide five messages. The consolidated statement of financial position illustrates both net debt and accumulated surplus. Net debt is a measure of past costs which will have to be paid in the future. Accumulated surplus represents the government's total financial and non-financial resources and obligations. The consolidated statement of operations gives an indication of whether or not the government has maintained its assets during the year. The consolidated statement of net debt reports whether revenues were able to cover the spending. Finally, the consolidated statement of cash flows shows sources and uses of cash during the year.

Honourable Leona Aglukkaq
Minister of Finance

Robert Vardy
Deputy Minister of Finance
and Comptroller General

AUDITOR'S REPORT

To the Legislative Assembly of Nunavut

I have audited the consolidated statement of financial position of the Government of Nunavut as at March 31, 2003 and the consolidated statements of operations, change in net debt and cash flows for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2003 and the results of its operations, the change in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for governments recommended by the Public Sector Accounting Board.

Under section 32 of the Nunavut *Financial Administration Act* (FAA), government departments are not allowed to spend more money than approved by the Legislative Assembly of Nunavut. Note 18 of these consolidated financial statements discloses that two departments did not respect this Act. Total over-expenditures were \$17,725,000.

Further, in my opinion, except for the over-expenditures detailed in Note 18, the transactions of the Government and of those organizations listed in Note 1 to the consolidated financial statements that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the Government's powers under the *Nunavut Act*, the *Nunavut Financial Administration Act* and regulations and the specific operating authorities disclosed in Note 1.

Additional information and comments on the consolidated financial statements and this opinion will be included in my annual report to the Legislative Assembly of Nunavut.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 24, 2004

GOVERNMENT OF NUNAVUT

Consolidated Statement of Financial Position as at March 31, 2003

(thousands of dollars)

	2003	2002
Liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 152,652	\$ 158,098
Employee future benefits (Note 11 (a))	29,043	26,593
Pension liabilities (Note 11 (b))	2,640	1,856
Long term debt (Note 12)	58,944	54,544
Capital lease obligations (Note 15)	132,519	136,569
Total liabilities	375,798	377,660
 Financial assets		
Cash and temporary investments (Note 4)	26,207	139,213
Designated cash and investments (Note 4)	2,251	-
Long term investments (Note 5)	2,010	-
Due from Canada (Note 6)	141,675	56,764
Revenues receivable (Note 7)	46,310	40,652
Bulk fuels and other inventories for resale	28,874	31,714
Loans receivable (Note 8)	18,313	19,349
Investment in Nunavut Power Corporation (Note 9)	19,552	27,530
Total financial assets	285,192	315,222
 Net debt	(90,606)	(62,438)
 Non-financial assets (Note 2 j))		
Tangible capital assets (Schedule B)	927,442	867,990
Prepaid assets	1,663	1,466
Total non-financial assets	929,105	869,456
 Accumulated surplus	\$ 838,499	\$ 807,018
 Commitments (Note 16)		
Contingencies (Note 17)		

Approved:

Honourable Leona Aglukkaq
Minister of Finance

Robert Vardy
Deputy Minister of Finance
and Comptroller General

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Operations**for the year ended March 31, 2003***(thousands of dollars)*

	2003	2002
Revenues		
From Canada (Schedule A)	\$ 749,225	\$ 688,838
Revenues generated by Nunavut (Schedule A)	84,908	66,240
Total revenues	834,133	755,078
Expenses (Note 13)		
Health and Social Services	181,357	155,894
Education	167,368	157,116
Finance	162,528	146,556
Community Government and Transportation	84,423	81,434
Public Works and Services	79,864	109,984
Justice	45,907	38,699
Sustainable Development	35,750	32,925
Other	45,455	42,576
Total expenses	802,652	765,184
Excess of revenues over expenses (expenses over revenues)	31,481	(10,106)
Projects for Canada and others		
Revenues	28,636	25,872
Expenses	(28,636)	(25,872)
Surplus (deficit) for the year	31,481	(10,106)
Accumulated surplus, beginning of the year	807,018	811,290
Adjustment to transfer on division of Northwest Territories Power Corporation (Note 3)	-	5,834
Accumulated surplus, end of the year	\$ 838,499	\$ 807,018

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Change in Net Debt

as at March 31, 2003*(thousands of dollars)*

	2003	2002
Surplus (deficit) for the year	\$ 31,481	\$ (10,106)
Tangible capital assets		
Acquisition	(96,450)	(77,622)
Amortization	34,391	32,049
Disposals and write downs	2,607	2,278
	(59,452)	(43,295)
Net use (acquisition) of prepaid assets	(197)	3,401
Increase in net debt	(28,168)	(50,000)
Net debt, beginning of the year	(62,438)	(18,272)
Adjustment to transfer on division of Northwest Territories Power Corporation (Note 3)	-	5,834
Net debt, end of the year	\$ (90,606)	\$ (62,438)

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Cash Flows
for the year ended March 31, 2003

(thousands of dollars)

	2003	2002
Cash provided by (used for)		
government operations:		
Grants from Canada	\$ 698,707	\$ 761,773
Taxes	50,500	44,559
Other government revenues	106,657	114,409
Grants and contributions	(153,185)	(123,762)
Salaries and employee benefits	(242,972)	(220,357)
Goods and services acquired	(450,779)	(414,687)
Cash provided by government operations	8,928	161,935
Cash provided by (used for) investing activities:		
Sale of tangible capital assets	-	381
Acquisitions of tangible capital assets	(97,783)	(66,865)
Loans to municipalities, businesses and individuals	(3,872)	(2,213)
Contribution to designated cash and investments	(2,411)	-
Acquisition of long term investments	(2,010)	-
Loan repayments received by the government	4,743	3,856
Cash used for investing activities	(101,333)	(64,841)
Cash used for financing activities:		
Payment of principal and interest under capital leases	(15,459)	(15,312)
Payment of principal and interest on long term debt	(5,142)	(5,141)
Cash used for financing activities	(20,601)	(20,453)
Increase (decrease) in cash and temporary investments	(113,006)	76,641
Cash and temporary investments, beginning of the year	139,213	62,572
Cash and temporary investments, end of the year	\$ 26,207	\$ 139,213

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

1 AUTHORITY AND OPERATIONS

a) Authority and government reporting entity

The Government of Nunavut (the Government) operates under the authority of the *Nunavut Act (Canada)*. The Government has an elected legislative assembly which annually authorizes all disbursements except those specifically authorized by statute.

These consolidated financial statements are prepared in accordance with the *Nunavut Act (Canada)* and the *Nunavut Financial Administration Act*. The following organizations comprise the reporting entity represented by these consolidated financial statements. These organizations are accountable to, and are either owned or controlled by the Government.

All have a March 31 fiscal year end, except for Nunavut Arctic College which has a June 30 year end.

Entities fully consolidated in these financial statements

Government of Nunavut, including those departments
set out in the Government's Main Estimates.
Revolving funds including the Petroleum Products
Revolving Fund and the Liquor Revolving Fund.
Nunavut Housing Corporation.
Nunavut Arctic College.
Nunavut Development Corporation.
Nunavut Business Credit Corporation.

Authority for operations

Financial Administration Act

Revolving Funds Act
Nunavut Housing Corporation Act
Public Colleges Act
*NWT Development Corporation Act**
Nunavut Business Credit Corporation Act

Entities presented in these financial statements using modified equity accounting

Nunavut Power Corporation.

Authority for operations

Nunavut Power Utilities Act

* as duplicated for Nunavut by Section 29 of the *Nunavut Act (Canada)*

- b) A comparison of budgeted and actual operations is provided in the Government's unaudited, unconsolidated financial statements which are included in the Government's Public Accounts.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

2 SIGNIFICANT ACCOUNTING POLICIES

Section 45 of the *Nunavut Act (Canada)* requires that the Government's consolidated financial statements be prepared in accordance with accounting principles recommended by the Canadian Institute of Chartered Accountants.

Accordingly, the Government has adopted the recommendations of the Public Sector Accounting Board as the primary basis of its accounting policies. Other authoritative pronouncements are used to supplement the recommendations of the Public Sector Accounting Board, where appropriate.

a) Principles of consolidation

All entities included in the reporting entity other than the Nunavut Power Corporation (NPC) are fully consolidated, and significant transactions and balances between consolidated entities are eliminated.

The NPC is a Government business enterprise, and is accounted for using modified equity accounting. Under this method, the Government only reports its investment in the NPC, and the corporation's net revenues (losses). Financial transactions and balances between the NPC and other entities in the reporting entity are not eliminated.

b) Measurement uncertainty

Canadian generally accepted accounting principles for governments recommended by the Canadian Institute of Chartered Accountants require the Government to make estimates and assumptions that affect the amounts of certain assets, liabilities, revenues, and expenses reported in these financial statements. Some of the more significant areas where estimates have been used to prepare these financial statements include:

(i) Grant revenue under the Formula Financing Agreement with Canada. The amount recognized as revenue is based in part on estimates from the federal Department of Finance and Statistics Canada. These estimates may change and impact revenue for up to seven years in the future;

(ii) Income taxes collected by Canada on the Government's behalf, and grant revenue from Canada in areas such as the Canada Health and Social Transfer. These collections and grants are subject to revision by Canada in future years; and

(iii) Allowance for doubtful accounts, loan valuation allowances and employee future benefits.

By their nature, estimates are subject to measurement uncertainty. Estimates contained in these financial statements are the Government's best estimates at the date these statements were prepared. However, changes to these estimates might have a significant effect on future financial statements.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Employee future benefits

Non-Pension

Under the terms and conditions of employment, government employees may earn non pension benefits for retirement, severance and removal costs based on years of service. The estimated liability and related expenses for annual leave, retirement, severance and removal costs are recorded as employees earn these benefits. The cost of the benefits has been determined based on management's best estimates.

Pension

Government employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times (2002- 2.14 times) the employee's contribution. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations.

Pension benefits to Members of the Legislative Assembly are determined on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates, the adjustments needed are amortized over the estimated average remaining service lives of the contributors.

d) Obligations under leases

The Government classifies its leases for buildings and equipment as either capital or operating leases, as appropriate.

Capital leases

Those leases which transfer substantially all the benefits and risks of ownership of property to the Government are accounted for as both a tangible capital asset and a related capital lease obligation. Both are initially recorded at the present value of the minimum lease payments, effective at the beginning of the lease.

Operating leases

Operating leases are those leases where substantially all the benefits and risks of ownership are not transferred to the Government. Lease payments under operating leases are expensed.

e) Cash and short-term investments

Temporary investments are valued at the lower of cost and market value. Interest income is recorded on an accrual basis.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Long term investments

Long term investments are valued at cost, with unrealized losses only recognized when it is determined there is a permanent decline in the value of investments. Investment revenue is recorded on the accrual basis.

g) Inventories for resale

Inventories for resale include bulk fuel, liquor and arts and crafts, and are valued at the lower of cost and net recoverable value.

h) Loans receivable

Loans receivable are valued at the lower of cost and net recoverable value. Valuation allowances recorded to reduce loans receivable are based on all circumstances known at the date these financial statements are prepared, including past events and current conditions. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

i) Investment in Nunavut Power Corporation

The Government is the sole shareholder of the Nunavut Power Corporation (NPC), a Crown corporation providing utility services to Nunavut Territory. NPC began its operations on April 1, 2001. The Government's share of the subsequent operations of NPC are accounted for in accordance with the modified equity basis of accounting.

j) Non-financial assets

For Government non-financial assets, the future economic benefit consists of their capacity to render service to further the Government's objectives. Therefore, these assets will not provide resources to discharge the liabilities of the Government.

k) Tangible capital assets

Tangible capital assets include buildings, roads, equipment, etc. whose economic life extends beyond a fiscal year and are intended to be used on an ongoing basis for delivering services.

Tangible capital assets are recorded at cost less accumulated amortization. Tangible capital assets, when placed in service, are amortized on a straight line basis over the economic life.

l) Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events gave rise to the revenues. Specific revenue accounting policies are as follows:

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant from Canada

The final amount of the annual grant from Canada pursuant to the Formula Financing Agreement is not known for many years, and is affected by many factors such as population growth, the growth of provincial-local government spending, tax revenues, and federal transfers.

Revenue recorded in the current year represents the Government's best estimate of the 2002/2003 grant from Canada. Future adjustments to the amount of the current year's grant are recorded as adjustments to grant revenue in the year that the need for adjustment is identified.

Other transfers from Canada

Other transfers from Canada are recognized as revenue in the period that the events giving rise to the transfer occurred, as long as: (i) the transfer is authorized; (ii) the Government has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

Government transfers received before these criteria are met are deferred and included in accounts payable and accrued liabilities until the criteria are met.

Taxes and general revenues

Income taxes are collected on the Government's behalf by Canada, and are recognized as revenue on a cash basis.

Property taxes and school levies are assessed on a calendar year basis, and are recorded on an accrual basis in the fiscal year in which the calendar year ends.

Other taxes are accrued based on information provided by those parties which collect tax on the Government's behalf.

Licenses, fees, and permits are recorded on a cash basis.

m) Expenses

Expenses are recorded on an accrual basis.

Grants and contributions are recorded as expenses when the following criteria are all met: (i) the grant or contribution has necessary authorization; (ii) the recipient has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

Grants or contributions paid prior to all three conditions being met are accounted for as revenues receivable until all conditions are met.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

3 DIVISION OF FORMER NORTHWEST TERRITORIES POWER CORPORATION (NTPC)

The Government's investment in the Nunavut Power Corporation (NPC) originated from the creation of Nunavut on April 1, 1999 and the subsequent division of the Northwest Territories Power Corporation (NTPC). A preliminary allocation to transfer a portion of the investment to the Government of Nunavut was recorded on April 1, 1999. A two year transition period, governed by two intergovernmental agreements, resulted in a revised allocation of NTPC assets, liabilities and shareholder's equity. Effective April 1, 2001, all corporate operations within the Nunavut Territory were taken over by NPC. The results of the revised allocation, which is still subject to ratification by each government, is to increase the preliminary allocation of Nunavut's share of NTPC's equity by \$5,834,000. The related capital transfer of net financial resources and accumulated surplus took place as follows:

	Investment in NPC (thousands of dollars)
Investment in NPC - preliminary	\$ 37,599
Adjustment	<u>5,834</u>
Balance as restated April 1, 2001	<u>\$ 43,433</u>

Other related impacts of this adjustment are to increase the accumulated surplus by \$5,834,000 and decrease net debt by the same amount.

4 CASH AND SHORT-TERM INVESTMENTS

Cash and temporary investments

Temporary investments are placed in high grade, short term income producing assets.

The portfolio yield for the year ended March 31, 2003 varied from 1.00% to 6.10% (2002 - 1.80% to 6.10%). As at March 31, 2003 the Government held temporary investments in the amount of \$16,819,000 (2002 - \$19,180,000). The average term to maturity is 84 days (2002 - 80 days).

Designated cash and investments

This amount is designated for the purpose of meeting the obligations of the retirement funds for the Legislative Assembly. These amounts cannot be used to discharge other obligations incurred by the Government. The assets in the investment portfolio are managed by a third party. The Statement of Investment Policy establishes the eligible classes of securities, categories of issuers, limits and terms.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

5 LONG TERM INVESTMENTS

These investments include high grade, long term income producing instruments of the Government of Canada and a trust company, with terms varying in both cases from one to five years. The effective rates of return are 3.26 % and 4.75%, respectively. The portfolio's average yield in 2003 was 3.57% (2002 - nil). Government of Canada investments amounted to \$1,031,000 (2002 - nil) while trust company investments were \$979,000 (2002 - nil).

6 DUE FROM CANADA

	2003 (thousands of dollars)	2002
Grant receivable		
Formula Financing Agreement grant (Schedule A)	\$ 661,783	\$ 598,680
Less: payments received	(601,468)	(676,956)
	<u>60,315</u>	<u>(78,276)</u>
Balance (payable) receivable at beginning of the year	(22,070)	56,206
	38,245	(22,070)
Other receivables	103,430	78,834
	<u>\$ 141,675</u>	<u>\$ 56,764</u>

The amounts due from Canada are non-interest bearing. The carrying amounts approximate fair market value because of the short term to maturity.

7 REVENUES RECEIVABLE

	2003 (thousands of dollars)	2002
Local housing associations and authorities	\$ 343	\$ 547
Other accounts receivable	46,008	41,442
Due from Government of Northwest Territories	7,738	7,543
Less: allowance for doubtful accounts	(7,779)	(8,880)
	<u>\$ 46,310</u>	<u>\$ 40,652</u>

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

8 LOANS RECEIVABLE

	2003 (thousands of dollars)	2002
Mortgage loans from Nunavut Housing Corporation to individuals with a maximum maturity of 25 years bearing interest between 6.00% and 14.25%, net of valuation allowance of \$6,461,000 (2002 - \$7,097,000)	\$ 4,236	\$ 6,608
Loans from Nunavut Business Credit Corporation to businesses with a maximum maturity of 25 years, bearing interest between 5.75% and 11.50%, net of valuation allowance of \$538,000 (2002 - \$740,000)	9,384	7,088
Loans to municipalities due in instalments to 2017 bearing interest between 0% and 9.0%, net of valuation allowance of \$435,000 (2002 - \$435,000)	3,066	4,158
Student Loan Fund loans due in instalments to 2011, bearing interest between 0% and 12.5%, net of valuation allowance and allowance for forgiveness of \$1,668,000 (2002 - \$1,510,000)	1,305	1,180
Other	322	315
	<u>\$ 18,313</u>	<u>\$ 19,349</u>

9 INVESTMENT IN NUNAVUT POWER CORPORATION

The governments of the Northwest Territories and Nunavut agreed to divide the net assets of the Northwest Territories Power Corporation (NTPC) on April 1, 2001 as if the corporation had been divided on April 1, 1999. All corporate operations within the Nunavut Territory were taken over by Nunavut Power Corporation (NPC) on this date. The allocation of the NTPC assets, liabilities and shareholder's equity between its Nunavut operations to NPC and its Northwest Territories operations to the NTPC was governed by two agreements: the Transition Agreement between the Government of the Northwest Territories (GNWT) and the Interim Commissioner of Nunavut and the Transfer of Interest Agreements between the GNWT, Government of Nunavut (GN), NTPC and NPC.

Summary financial information of the Nunavut Power Corporation is presented below.

	2003 (thousands of dollars)	2002
Assets	\$ 138,223	\$ 139,097
Liabilities	<u>(118,671)</u>	<u>(111,567)</u>
Investment in Nunavut Power Corporation	<u>\$ 19,552</u>	<u>\$ 27,530</u>

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

9 INVESTMENT IN NUNAVUT POWER CORPORATION (continued)

Statement of Operations and Surplus For the year ended March 31

	2003 (thousands of dollars)	2002
Revenues	\$ 52,844	\$ 54,815
Expenses	<u>(60,822)</u>	<u>(70,718)</u>
Net loss	(7,978)	(15,903)
Surplus, beginning of year	27,530	23,170
Nunavut's share of former NTPC capital stock converted to surplus upon division	-	14,429
Adjustment to transfer on division of NTPC (Note 3)	<u>-</u>	<u>5,834</u>
Surplus, end of year	<u>\$ 19,552</u>	<u>\$ 27,530</u>

Included in the above are revenues from, and expenditures to, entities in the Government's reporting entity of \$23,363,000 (2002 - \$23,785,000) and \$10,055,000 (2002 - \$10,708,000) respectively.

Loan Guarantees

As part of its financing, the Nunavut Power Corporation has arranged various credit facilities at different terms and interest rates. The Government of Nunavut has provided a guarantee for these credit facilities.

	2003 (thousands of dollars)	2002
Bank credit facility, interest at prime less 0.25%.	\$ 9,426	\$ 4,675
20 year amortizing debenture at interest rate of 6.809%.	61,000	61,000
Floating rate capital loan facility, interest at prime less 0.25%.	<u>7,362</u>	<u>3,867</u>
Total guarantees provided	<u>\$ 77,788</u>	<u>\$ 69,542</u>

The bank credit facility limit is \$12 million.

The floating rate capital loan facility limit is \$16 million.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003 (thousands of dollars)	2002
Payable to related parties		
Nunavut Power Corporation	\$ 3,988	\$ 5,843
Local housing associations and authorities	5,813	3,937
	<u>9,801</u>	<u>9,780</u>
Other		
Accounts payable	63,835	75,116
Other liabilities, payroll deductions, and contractor's holdbacks	35,229	28,852
Due to Government of Northwest Territories	27,028	30,909
Deferred revenue	16,759	13,441
	<u>142,851</u>	<u>148,318</u>
	<u>\$ 152,652</u>	<u>\$ 158,098</u>

11 EMPLOYEE FUTURE BENEFITS

a) Non-Pension

	2003 (thousands of dollars)	2002
Vacation pay	\$ 13,286	\$ 11,292
Removal	6,821	7,339
Retirement and severance	<u>8,936</u>	<u>7,962</u>
	<u>\$ 29,043</u>	<u>\$ 26,593</u>

b) Pension

i) Public Service Superannuation Plan

Both the Government and its employees make contributions to the Public Service Superannuation Plan administered by Canada. In 2003, the Government's contributions were \$ 19,455,394 (2002 - \$17,132,553).

The amount of the Government's contributions are set by Canada, and represent the Government's sole obligation under this plan. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the plan.

ii) Legislative Assembly Retiring Allowance Plans

The Government of Nunavut sponsors two defined benefit pension plans for Members of the Legislative Assembly. Both plans are administered by the Management and Services Board of the Legislative Assembly.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

11 EMPLOYEE FUTURE BENEFITS (continued)

The first plan is a registered and contributory defined benefit pension plan established under the *Legislative Assembly Retiring Allowances Act* (LARAA). The Office of the Legislative Assembly, Government of Nunavut, operates a separate pension fund in trust to administer LARAA contributions and allowances. The plan came into effect on April 1, 1999.

The second plan is a voluntary non-registered, non-contributory defined benefit pension plan established under the *Supplementary Retiring Allowances Act* (SRAA) for Members who elect to participate. Payments and expenses related to the SRAA are paid from the Government's consolidated revenue fund. The plan came into effect during the 2001-2002 fiscal year, and provides for benefits retroactive to April 1, 1999.

The last actuarial valuation of the plans was on April 1, 2002. The valuation is based on a number of assumptions about future events including inflation rates, interest rates, increases in remuneration, and mortality. Assumptions used reflect the Government's best estimates. These include a rate of return on assets of 7.0 % and inflation of 4.0 % for the LARAA as well as a rate of return on assets of 6.5 % and inflation of 4.0 % for the SRAA.

The pension liabilities represent actuarial present value of accrued pension benefits over the actuarial value of net assets available for benefits.

Pension liabilities as of March 31 are as follows:

			2003		2002
	Pension plan LARAA	Pension plan SRAA	(thousands of dollars)		
Accrued benefit obligation	\$ 1,643	\$ 2,568	\$ 4,211	\$	2,955
Pension fund net assets	(1,460)	-	(1,460)	\$	(1,099)
Unamortized actuarial gain	(111)	-	(111)		-
Pension liability	<u>\$ 72</u>	<u>\$ 2,568</u>	<u>\$ 2,640</u>	<u>\$</u>	<u>1,856</u>

The Government's contributions related to the LARAA and SRAA during the year are \$266,000 and \$609,500 respectively (2002 - \$250,100 and \$1,801,700 respectively). Contributions by the Members of the Legislative Assembly under the LARAA were \$185,081 (2002 - \$95,484).

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

12 LONG TERM DEBT

	2003	2002
	(thousands of dollars)	
Loans payable to Canada Mortgage and Housing Corporation, repayable in annual instalments to the year 2033, bearing interest at a rate of 6.97%.	\$ 53,270	\$ 54,544
Mortgage payable in annual instalments to the year 2020, bearing interest at a rate of 6.803% compounded semi-annually.	5,674	-
	<u>\$ 58,944</u>	<u>\$ 54,544</u>

Principal and interest amounts due in each of the next five fiscal years and thereafter are as follows:

	Principal	Interest	Total
	(thousands of dollars)		
2004	\$ 1,539	\$ 4,157	\$ 5,696
2005	1,649	4,047	5,696
2006	1,765	3,931	5,696
2007	1,890	3,805	5,695
2008	2,024	3,672	5,696
2009 and beyond	50,077	36,243	86,320
	<u>\$ 58,944</u>	<u>\$ 55,855</u>	<u>\$ 114,799</u>

The interest paid on long term debt during the year was \$3,867,000 (2002 - \$3,952,000).

13 EXPENSES BY TYPE (OBJECT)

	2003	2002
	(thousands of dollars)	
Grants and contributions	\$ 145,960	\$ 139,525
Salaries and employee benefits	249,452	235,071
Payments for goods and services	407,240	390,588
	<u>\$ 802,652</u>	<u>\$ 765,184</u>

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

14 RELATED PARTY TRANSACTIONS

Contributions to related parties

Transactions with related parties and balances at year end, not disclosed elsewhere in the financial statements, are disclosed in this note. During the year, the Government made contributions and grants to the following related parties which are outside of the reporting entity described in Note 1 a):

	2003 (thousands of dollars)	2002
Local housing associations and authorities	\$ 59,131	\$ 57,148

The Government provides funding to many communities, boards, and agencies that offer services to the public, and which operate independently of normal Government operations.

15 CAPITAL LEASE OBLIGATIONS

Capital lease obligations are based upon contractual minimum lease payments for leases in effect as of March 31, 2003.

	2003 (thousands of dollars)	2002
Total minimum lease payments	\$ 235,889	\$ 250,526
Less: imputed interest and executory costs	103,370	113,957
Present value of minimum lease payments	\$ 132,519	\$ 136,569

Future minimum lease payments for each of the next 5 years and thereafter are:

2004	\$ 15,505
2005	15,549
2006	15,594
2007	15,640
2008	15,687
2009 and beyond	157,914
	\$ 235,889

Interest expense related to capital lease obligations for the year was \$9,922,000 (2002 -\$10,145,000) at an implied average interest rate of 7.3% (2002 - 7.6%).

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

16 COMMITMENTS

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2003:

	Expiry Date	Total (thousands of dollars)
Canada Mortgage and Housing Corporation	2038	\$ 388,700
Commitments under operating leases	2022	303,652
Capital commitments	2008	94,485
Policing agreement	2012	169,155
Other commitments	2009	21,792
		<u>\$ 977,784</u>

Commitments by fiscal year are as follows:

2004	\$ 153,779
2005	93,812
2006	77,316
2007	69,979
2008	65,538
2009 and beyond	517,360
	<u>\$ 977,784</u>

In accordance with a Declaration of Trust Agreement, the Canada Mortgage and Housing Corporation (CMHC) transferred its ownership interest in territorial rental and loan portfolios to the Northwest Territories Housing Corporation as trustee. The Northwest Territories Housing Corporation in turn transferred this interest to the Nunavut Housing Corporation (Corporation). The Corporation assumed full responsibility and liability for the social housing programs related to the portfolio and receives annual funding from CMHC to manage these programs. The agreement and funding expire in 2038.

A portion of this funding is used to make payments on portfolio-related CMHC mortgages of \$142,907,000 maturing between 2004 and 2038, plus interest of \$245,794,000 at interest rates ranging from 4.5% to 21.5%. As the related mortgages mature, the Corporation obtains clear title to CMHC's share of the book value of the respective assets. Until clear title is obtained, CMHC is entitled to its respective share of any gains on the disposal of any portfolio assets.

The portfolio assets and mortgages, held in trust, are recorded only as a commitment in these financial statements. Additionally, since CMHC retains the annual mortgage-related funding to make the mortgage payments, neither the funding nor the mortgage payments are recorded by the Government.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

17 CONTINGENCIES

a) Post-division adjustments

The agreement governing the division of assets and liabilities between the Government of Nunavut and the Government of the Northwest Territories as at April 1, 1999 sets out a mechanism which provides for post-division adjustments.

The period for such adjustments is unlimited, and such adjustments would be made in a variety of specified circumstances such as the settlement of litigation related to events prior to the date of division. In such an event, there is an opportunity for one of the governments to file a claim against the other government to share in costs.

b) Environmental restoration costs

As circumstances and funding have permitted, the Government has been addressing the problem of environmental liabilities. This process has consisted, in a number of departments, of identifying sites of potential liability, and, if necessary, for each such site and, on an ongoing basis, remediating the site. Costs of remediating the sites are charged to operations as incurred.

Sites in, or in close proximity to, communities have been identified where environmental liabilities may exist. Assessments are being done on an ongoing basis and remediation plans are in place for those sites where environmental hazards have been identified. In addition, fuel caches outside communities have been identified and a program of ongoing site inspection, and, where necessary, drum removal and remediation is in place. There are however, a significant number of existing sites where, due to remoteness or the small number of drums involved (with the potential for only limited local contamination), formal site inspections have yet to be made.

The Government will continue with its program of site inspection, assessment and remediation on an ongoing basis. While estimates of the costs attributable to the Government are not yet available, the Government will continue to work in a practical manner towards the determination and recognition of environmental liabilities.

In those cases where the cost of remediating sites is quantifiable, an estimate of the liability is accrued. As of March 31, 2003, no costs have yet been quantified so no liability has been accrued.

c) Litigation

More individuals have come forward alleging abuse by a former schoolteacher in a region of Nunavut that was formerly part of the Northwest Territories. Pursuant to agreements negotiated prior to the division of the territories, the Governments of Nunavut and the Northwest Territories will jointly defend the action. The costs of defending the action and any damages that may eventually be awarded will be shared by the two Governments 44.34% and 55.66% respectively. An estimate of the loss arising from these suits, if any, cannot be determined at this time.

GOVERNMENT OF NUNAVUT

Notes to Consolidated Financial Statements for the year ended March 31, 2003

18 OVER-EXPENDITURES

Certain government departments exceeded expenditure appropriations for the year. Over-expenditures by department are as follows: Health and Social Services \$17,182,000 and Justice \$543,000. This contravenes Section 32 of the *Financial Administration Act* which states "...no person shall incur an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded".

19 COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to the current year's presentation.

GOVERNMENT OF NUNAVUT**SCHEDULE A****Consolidated Schedule of Revenues by Source****for the year ended March 31, 2003***(thousands of dollars)*

	2003	2002
From Canada		
Formula Financing Agreement	\$ 661,783	\$ 598,680
Transfer payments	87,442	90,158
	<u>749,225</u>	<u>688,838</u>
Revenues generated by Nunavut		
Taxes	50,552	37,662
General	28,959	30,366
Sales		
Liquor Revolving Fund (net of cost of goods sold of \$1,516 (2002 - \$1,461))	2,567	2,702
Petroleum Products Revolving Fund (net of cost of goods sold of \$70,387 (2002 - \$66,947))	10,808	11,413
Net loss Nunavut Power Corporation (Note 9)	<u>(7,978)</u>	<u>(15,903)</u>
	<u>84,908</u>	<u>66,240</u>
Total revenues	<u>\$ 834,133</u>	<u>\$ 755,078</u>

Consolidated Schedule of Tangible Capital Assets

as at March 31, 2003

(thousands of dollars)

	Buildings	Capital Lease Buildings	Storage	Tank Farms	Equipment	Infrastructure	Land	2003	2002
Cost of Tangible Assets									
Opening balance	\$ 624,081	\$ 145,516	\$ 39,691	\$ 98,988	\$ 14,768	\$ 99,290	\$ 260	\$ 1,022,594	\$ 947,471
Additions	76,368	266	313	4,287	3,950	11,209	57	96,450	77,622
Disposals	(1,744)	-	-	-	(130)	(975)	-	(2,849)	(2,499)
Closing balance	698,705	145,782	40,004	103,275	18,588	109,524	317	1,116,195	1,022,594
Accumulated Amortization									
Opening balance	(111,732)	(10,976)	(5,946)	(9,206)	(8,149)	(8,595)	-	\$ (154,604)	(122,776)
Amortization for the year	(18,825)	(4,791)	(1,225)	(3,351)	(3,061)	(3,138)	-	(34,391)	(32,049)
Disposals	208	-	-	-	-	34	-	242	221
Closing balance	(130,349)	(15,767)	(7,171)	(12,557)	(11,210)	(11,699)	-	(188,753)	(154,604)
Net Book Value	\$ 568,356	\$ 130,015	\$ 32,833	\$ 90,718	\$ 7,378	\$ 97,825	\$ 317	\$ 927,442	\$ 867,990
Estimated Useful Life	30 Years	30 Years	30 Years	30 Years	5 Years	30 Years			